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Mumbai

CRISIL Equities assigns IPO grade 4/5 to Orient Green Power Limited

CRISIL Equities has assigned a CRISIL IPO grade of “4/5” (pronounced “four on five”) to the proposed initial public offer (IPO) of Orient Green Power Limited (OGPL). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument’s future market price or its suitability for a particular investor.

The assigned grade reflects OGPL’s ability to leverage the opportunity present in the power market because of power deficit, which is expected to remain about 4.0% over the medium term. Most of OGPL’s committed projects are in an advanced stage of implementation. The grade factors in the Indian policymakers’ commitment to promote the renewable energy industry through fiscal and other incentives like RPO (Renewable Purchase Obligation) and RECs (Renewable Energy Certificates). The grade is also supported by the fact that the management has shown its ability to acquire plants and improve their operational efficiency as well as set up new capacities in a timely manner. Further, OGPL has the backing of its co-promoter Shriram EPC, which has experience in handling EPC contracts for renewable-based plants.

The grade is constrained by the poor financial health of State Electricity Boards, OGPL’s main customers. Also, the cost of generating renewable energy is higher compared to conventional sources, which increases OGPL’s dependence on regulatory support like RPOs and RECs. The success of any biomass plant critically depends on the adequate availability of locally available fuel (from agricultural waste). Though OGPL carefully selects the site and policy protection does not allow a new plant to come up within 70 km radius, it is exposed to fuel risk in case a new biomass plant comes up near the existing OGPL plant.

About the company and the issue

Incorporated in December 2006, OGPL is in the business of building and operating renewable energy-based power plants. It started generating power in April 2008 after it acquired the first biomass plant in Kotputli, Rajasthan. The company is one of the largest independent operators and developers of renewable energy-based plants in India based on installed capacity of 193.1 MW as of FY10; 40.5 MW is in biomass-based plants and the balance is in wind-based plants.

The company is a 94.75% subsidiary of Singapore-based Orient Green Power Pte. Ltd, which is owned by Shriram EPC, Singapore (37.7%), Bessemer India Capital OGPL Limited (37.7%) and AEP Green Power Limited (24.6%). Bessemer India and AEP Green are the private equity investors in OGPL.

For the nine months ended December 31, 2009, the company posted revenues of Rs 246.2 mn and a loss of Rs 71.2 mn as the biomass plants were operationally unstable. The ownership of Bharat Wind Farm Ltd (BWFL), which owns wind assets of the group, was transferred to OGPL in January 2010. For the same period, BWFL posted revenues of Rs 353.4 mn and a profit of Rs 21.5 mn.

OGPL has aggressive plans to expand capacity from 193.1 MW to more than 1,000 MW through greenfield projects by 2013. It plans to raise around Rs 9,000 mn through an IPO to fund the expansion and repay existing loans.

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